



FTR

## State of Connecticut

### HOUSE OF REPRESENTATIVES STATE CAPITOL

REPRESENTATIVE RICHARD A. SMITH  
ONE HUNDRED EIGHTH ASSEMBLY DISTRICT

LEGISLATIVE OFFICE BUILDING  
ROOM 4200  
HARTFORD, CT 06106-1591

TOLL FREE: (800) 842-1423  
CAPITOL: (860) 240-8700  
CELL: (203) 460-4871  
EMAIL: Richard.Smith@housegop.ct.gov

MEMBER  
FINANCE, REVENUE AND BONDING COMMITTEE  
JUDICIARY COMMITTEE  
PLANNING AND DEVELOPMENT COMMITTEE

Insurance and Real Estate Committee  
Senator Joseph Crisco, Co-Chair  
Representative Robert Megna, Co-Chair

FROM: Representative Richard A. Smith, 108<sup>th</sup> Assembly District

DATE: March 8, 2011

RE: HB 6510 – An Act Concerning the Regulation of Private Transfer Fees and the Valuation of Real Estate

I would like to thank the Honorable Co-Chairs, Senator Crisco and Representative Megna, the Vice-Chairs, Senator Hartley and Representative Johnson, the Ranking Members, Senator Kelly and Representative Coutu, and the entire membership of the Insurance and Real Estate Committee for their attention to my written testimony. I apologize for being unable to attend the public hearing in person.

I am an attorney who has been in private practice since 1983 and I am the current Chairman of the Real Estate Section of the Danbury Bar Association. I have a general legal practice with an emphasis on real estate. As such, I have represented numerous Sellers, Buyers and lenders in all types of real estate transfers. In this capacity, I appreciate being given the opportunity to submit testimony in support of Raised Bill 6510.

#### What are Private Transfer Fees?

- A PTF is a real estate, community, and consumer financing tool.
- PTFs are disclosed and enforced through publicly filed legal covenants, thus providing notice to all purchasers.



## **State of Connecticut**

### **HOUSE OF REPRESENTATIVES STATE CAPITOL**

**REPRESENTATIVE RICHARD A. SMITH**  
ONE HUNDRED EIGHTH ASSEMBLY DISTRICT

LEGISLATIVE OFFICE BUILDING  
ROOM 4200  
HARTFORD, CT 06106-1591

TOLL FREE: (800) 842-1423  
CAPITOL: (860) 240-8700  
CELL: (203) 460-4871  
EMAIL: Richard.Smith@housegop.ct.gov

**MEMBER**  
FINANCE, REVENUE AND BONDING COMMITTEE  
JUDICIARY COMMITTEE  
PLANNING AND DEVELOPMENT COMMITTEE

- The covenants typically assess a 1% fee, payable by each seller at the time of transfer, over 99 years.
- Transfer fees have been used for decades; an estimated 10-12 million homes nationwide have a transfer fee.

### **PTF'S BENEFIT CONSUMERS**

**Private transfer fees lower the cost of homeownership:**

- Traditionally a developer builds 100% of the costs of infrastructure into the initial sales price of a home.
- PTFs allow a developer to spread development costs over the lifetime of the improvements by assessing future homeowners and, therefore, lower the initial price of the home.
- A home with a PTF will sell for less than a home without one; the market will adjust to reflect encumbrances.
- A lower purchase price means lower closing costs, carrying costs, opportunity costs, and interest expenses for the homeowner.



## State of Connecticut

### HOUSE OF REPRESENTATIVES STATE CAPITOL

REPRESENTATIVE RICHARD A. SMITH  
ONE HUNDRED EIGHTH ASSEMBLY DISTRICT

LEGISLATIVE OFFICE BUILDING  
ROOM 4200  
HARTFORD, CT 06106-1591

TOLL FREE: (800) 842-1423  
CAPITOL: (860) 240-8700  
CELL: (203) 460-4871  
EMAIL: Richard.Smith@housegop.ct.gov

MEMBER  
FINANCE, REVENUE AND BONDING COMMITTEE  
JUDICIARY COMMITTEE  
PLANNING AND DEVELOPMENT COMMITTEE

### PTFs AID ECONOMIC RECOVERY

Private transfer fees can help revive the economy:

- A PTF represents a long-term income stream similar to a "development bond", that can be sold in return for liquidity.
- The liquidity would help make distressed projects economically viable again by being used to pay down bank loans, restore jobs, reduce sales prices, purchase building materials, etc.
- Each stalled development project that realizes liquidity through PTFs creates an economic stimulus that does not require taxpayer investment.

When a developer envisions a new project, he or she applies for a loan, often times from a community bank, to finance the work. This covers the cost of purchasing the plot of land, building materials, engineering, hiring construction crews, and infrastructure installation.

When the real estate market crashed, developers were forced to stall projects mid-construction, before they could be completed. The developer, unable to repay the bank loan, had to lay off workers. Burdened with a bad loan, the bank had to set aside additional reserves, reducing the amount of capital available to make loans to other local businesses.

Developers and banks across the country find themselves in this situation, and our economy suffers as a result.

However, private transfer fees are a private sector solution to the problem. Developers who file PTFs and sell the long-term revenue stream can realize an immediate capital injections



## State of Connecticut

### HOUSE OF REPRESENTATIVES STATE CAPITOL

REPRESENTATIVE RICHARD A. SMITH  
ONE HUNDRED EIGHTH ASSEMBLY DISTRICT

LEGISLATIVE OFFICE BUILDING  
ROOM 4200  
HARTFORD, CT 06106-1591

TOLL FREE: (800) 842-1423  
CAPITOL: (860) 240-8700  
CELL: (203) 460-4871

EMAIL: Richard.Smith@housegop.ct.gov

MEMBER  
FINANCE, REVENUE AND BONDING COMMITTEE  
JUDICIARY COMMITTEE  
PLANNING AND DEVELOPMENT COMMITTEE

with which they can repay their bank loan, freeing up capital for banks to loan to other businesses.

The developer can then complete the project that was stalled; workers are rehired and demand for materials is increased. Homeowners benefit, too, receiving a lower price up front.

### PTFs FUND COMMUNITY PROGRAMS

Private transfer fees provide **funding for non-profit community programs:**

- Five percent of every PTF must go to fund a non-profit organization that serves the community from which the subject property is located. PTFs fund projects that promote clean air, clean water, the environment, open space, parks and a wide variety of other purposes.
- Charitable funding helps build stronger communities, thus benefiting homeowners.
- Based on current projections, PTFs will generate **tens of billions of dollars** of non-profit funding nationally over a 99 year period.

As banks have repossessed more than 1 million homes nationwide in 2010, we are always looking for ways to help the ailing housing market. As indicated above, Private Transfer Fees lower the cost of homeownership because instead of a developer building 100% of the costs of infrastructure into the original price of a home, the developer will spread the costs over a generation of advances by assessing future homeowners. This lower purchase price for the homeowner will allow for lower closing costs, carrying costs, opportunity costs, and interest expenses.



## State of Connecticut

### HOUSE OF REPRESENTATIVES STATE CAPITOL

**REPRESENTATIVE RICHARD A. SMITH**  
ONE HUNDRED EIGHTH ASSEMBLY DISTRICT

LEGISLATIVE OFFICE BUILDING  
ROOM 4200  
HARTFORD, CT 06106-1591

TOLL FREE: (800) 842-1423  
CAPITOL: (860) 240-8700  
CELL: (203) 460-4871

EMAIL: [Richard.Smith@housegop.ct.gov](mailto:Richard.Smith@housegop.ct.gov)

**MEMBER**  
FINANCE, REVENUE AND BONDING COMMITTEE  
JUDICIARY COMMITTEE  
PLANNING AND DEVELOPMENT COMMITTEE

For all the reasons noted above, I strongly urge you to vote against this overbearing and far reaching Bill.

Thank you for your attention to this issue. As always, I am happy to provide additional information or answer any questions you may have.

Representative Richard A. Smith,  
108<sup>th</sup> Assembly District